

AR21

ANNUAL REPORT 1973

SmithKline
CORPORATION



ANNUAL MEETING

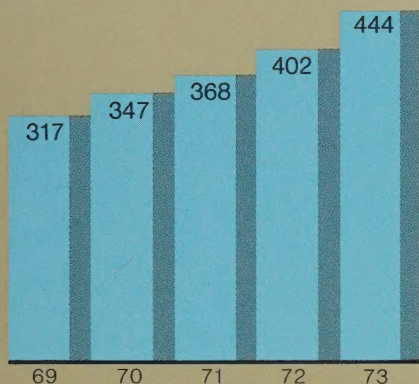
The annual meeting of shareholders will be held on Monday, April 22, 1974, in Philadelphia. Formal notice of the meeting, together with the proxy statement and form of proxy, will be mailed to each holder of common stock.

HIGHLIGHTS

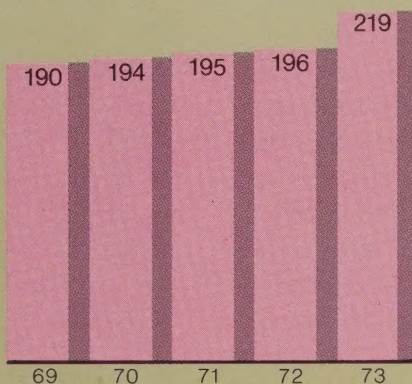
	<u>1973</u>	<u>1972</u>
Sales	\$444,133,000	\$402,328,000
Earnings before income taxes	77,886,000	73,585,000
Net earnings	52,831,000	48,934,000
Per share of common stock:		
Earnings	\$3.55	\$3.28
Dividends	2.00	2.00
Shareholders' equity	253,112,000	233,780,000
Research and development expenses	40,234,000	38,386,000
Capital expenditures	16,123,000	16,372,000
Number of shareholders of record	16,901	17,624

SALES (millions)

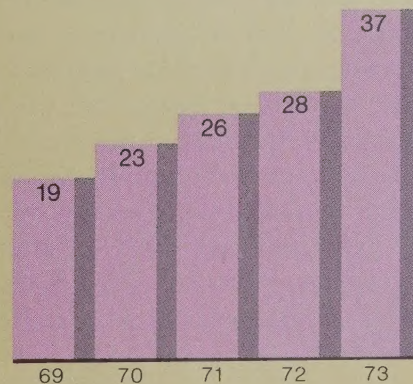
Consolidated



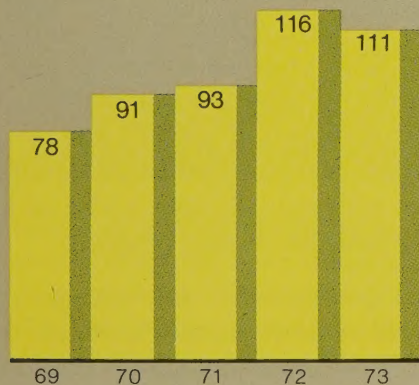
Pharmaceutical Products



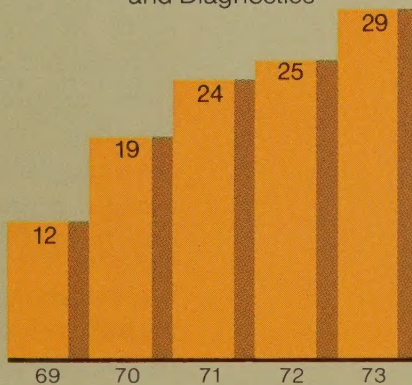
Animal Health Products



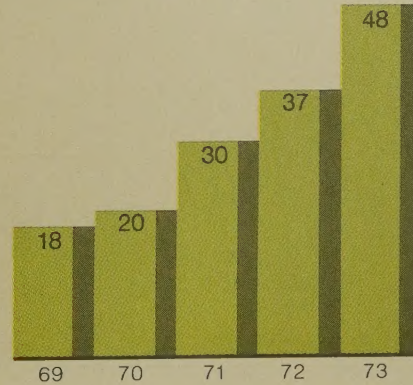
Consumer Products



Medical Instruments
and Diagnostics



Industrial Products



TO OUR SHAREHOLDERS



Robert F. Dee
President and Chief Executive Officer

Lewis E. Harris, Sc.D.
Chairman of the Board

The past year was one of solid progress for your Company. We achieved our financial goals for 1973 while continuing our investments in operating areas with high growth potential. For a number of years, your Company has been investing considerable corporate resources to strengthen our pharmaceutical business and to support programs of worldwide business diversification and market development.

As a result of this policy of investment spending and operational development, we have broadened our earnings base and, for the past three years, achieved sales and earnings growth at an increasing pace. Earnings per share grew 3% in 1971; 6% in 1972; and 8% in 1973. We look for a continuation of this upward trend in 1974. We are making steady progress toward our corporate objective of achieving an annual growth rate in sales, pretax and net earnings of more than 10%.

During the year, our shareholders voted to change the Company's name to SmithKline Corporation and we would like to review management's reasons for recommending this change.

The name Smith Kline & French Laboratories has always been identified with our pharmaceutical business. We are now diversified to the point that it is inappropriate for the name of one operating group to be also the name of the Corporation. While we have continued to stress pharmaceuticals, we have expanded our worldwide operations to include animal health products, consumer products, medical instruments and diagnostics, and ultrasonic equipment. We feel the new name more properly reflects the scope of our operations today.

It should be emphasized, however, that the foundation of the Company is still its pharmaceutical operations. We are expanding and strengthening this business and will continue to operate it under the name Smith Kline & French Laboratories. In recent years, we have increased our worldwide pharmaceutical product line to include antibiotics and vaccines; acquired companies in international markets; continued our strong financial support of research and development programs; and established ourselves in the developing branded generic market with our 'SK-Line', a line of high-quality, low-cost, widely used ethical drug products.

In reviewing our 1973 performance, we were especially pleased with the increased worldwide strength demonstrated by our human pharmaceutical operations, with sales reaching \$219 million. We successfully launched a major cephalosporin antibiotic in the United States, made further penetra-

tion in the worldwide antibiotic market, expanded our cough-cold and diuretic product lines, and substantially increased the size and the strength of our marketing forces in this country and in major international markets.

Our animal health products business experienced rapid worldwide growth during the year. Sales increased 30% to \$37 million. This resulted from the continued flow of new products from an outstandingly successful research and development program as well as from sound, imaginative marketing policies and aggressive expansion of our business in international markets.

Despite some strong performances in our worldwide consumer products business and an increase in sales in the United States, total volume declined to \$111 million. This was chiefly the result of a problem of a nonrecurring nature that we experienced in the Japanese vitamin market. We were pleased with the improved position of our established proprietary products in the United States, and we expect growth of our consumer products group to resume on a worldwide scale in 1974.

All segments of our ultrasonic operations registered substantial gains as sales of our industrial products business increased 31% to \$48 million. The growing concerns for product safety, the preservation of the environment, and the production and conservation of energy have focused increased attention on ultrasonic technology. Today this technology is being used in many ways to decrease pollution, test oil pipelines, build lighter automobiles and test for safety in nuclear reactors and other energy-related operations. Our ultrasonic capability is strong both in the United States and in international markets, and the outlook is bright for continued progress in the years ahead.

Sales in our medical instruments and diagnostic business increased 16% to \$29 million, primarily as the result of the improved performance of our clinical laboratories. The continuing emphasis on developing new diagnostic procedures and the accelerating trend toward preventive medicine are key factors affecting the growth of these operations.

SmithKline is a research-intensive corporation. Over the past several years, we have initiated research and development programs that we believe will generate significant new products in areas of wide global need. These programs are not confined to human pharmaceuticals. They also encompass animal health, medical and industrial instrumentation, and the proprietary medicine and consumer products fields.

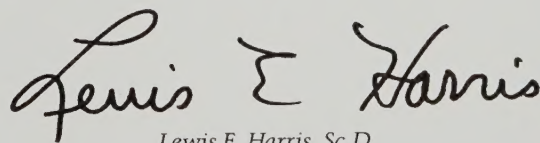
In 1973, we introduced another new cephalosporin antibiotic. We also introduced three major new animal health vaccines and new ultrasonic nondestructive testing systems for industrial use in North America and Europe.

We are especially proud of the achievements of one of our long-range human pharmaceutical research programs. Our scientists working with a new class of pharmacological compounds we discovered, known as histamine H₂-receptor antagonists, have made a fundamental contribution to biological knowledge. Clinical trials indicate that these compounds show promise of having significant medical application in the treatment of gastric hypersecretion.

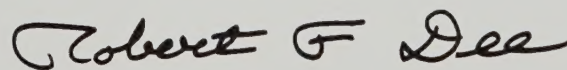
We feel that SmithKline Corporation and other companies doing meaningful research and development in the health care field must continue to have adequate return on investment to fund programs such as the one that produced our histamine H₂-receptor antagonists.

We also share the concern of consumers, health care professionals and government agencies that high-quality medical products and services be made available at low cost. While we feel that great care must be exercised so that the concern for low-cost pharmaceuticals does not lead to unnecessary risks to patients in the form of poor quality products, we are most sensitive to the need to provide medicines of high quality at reasonable cost. This was demonstrated in 1971 when we created our 'SK-Line' of products specifically to meet these standards. Progress of the 'SK-Line' has been steady and we are confident that the line represents an idea whose time has come. We expect it to experience greater growth in the years ahead.

In summary, we feel 1973 was a year of significant accomplishments, and we enter 1974 confident of our ability to meet the challenge of continued growth.



Lewis E. Harris, Sc.D.
Chairman of the Board



Robert F. Dee
President and Chief Executive Officer



PHARMACEUTICAL PRODUCTS

Our worldwide pharmaceutical business experienced a fine year in 1973. Sales increased 12% to \$219 million, and growth was registered both in the United States and in international operations.

The marketing of 'Ancef' in the United States was the most significant of a number of developments in our worldwide operations that not only contributed to 1973 sales growth, but also positioned us favorably for greater progress in the years ahead.

'Ancef' is a major new broad-spectrum injectable cephalosporin antibiotic with significant advantages over older cephalosporin products. It was marketed in the fourth quarter of 1973 after we had completed an extensive two-year clinical evaluation program in more than 80 leading hospital and university medical centers throughout the United States. Sales in the fourth quarter were extremely strong and exceeded expectations.

The market for all cephalosporin products in the United States is estimated at approximately \$150 million annually and further growth is expected. The market for injectable cephalosporins, which are used primarily in hospitals, is about \$90 million annually.

Our pharmaceutical division markets 'Ancef' under license from the Fujisawa Pharmaceutical Co., Ltd., of Japan. 'Ancef' is being produced at our new manufacturing facilities for cephalosporins at Upper Merion in suburban Philadelphia. In February, 1974, we began marketing 'Ancef' in Canada.

Antibiotics are playing an important role in the growth of our pharmaceutical sales in international markets. We introduced cephadrine, our other cephalosporin product, which can be administered in both oral and injectable forms, in a number of additional major markets during the year. Cephadrine, which has been well received by the medical profession, is now being sold in 12 foreign markets, including Argentina, Belgium, Brazil, Mexico, Spain, the United Kingdom and Ireland. A New Drug Application for cephadrine has been filed with the United States Food and Drug Administration.

In support of our marketing programs, we expanded the size

of our professional sales force in the United States and in principal foreign markets during 1973. The sales force was increased approximately 20% in this country, and special programs were designed to improve the coverage and effectiveness of our sales effort with physicians and hospitals. Other programs were also initiated with hospitals and retail pharmacists to maximize penetration into the antibiotic and branded generic markets.

In international operations, the sales force has increased by more than 25% over the past two years. In major European nations, such as Belgium, France, Spain and the United Kingdom, the increases approached 45% during this period.

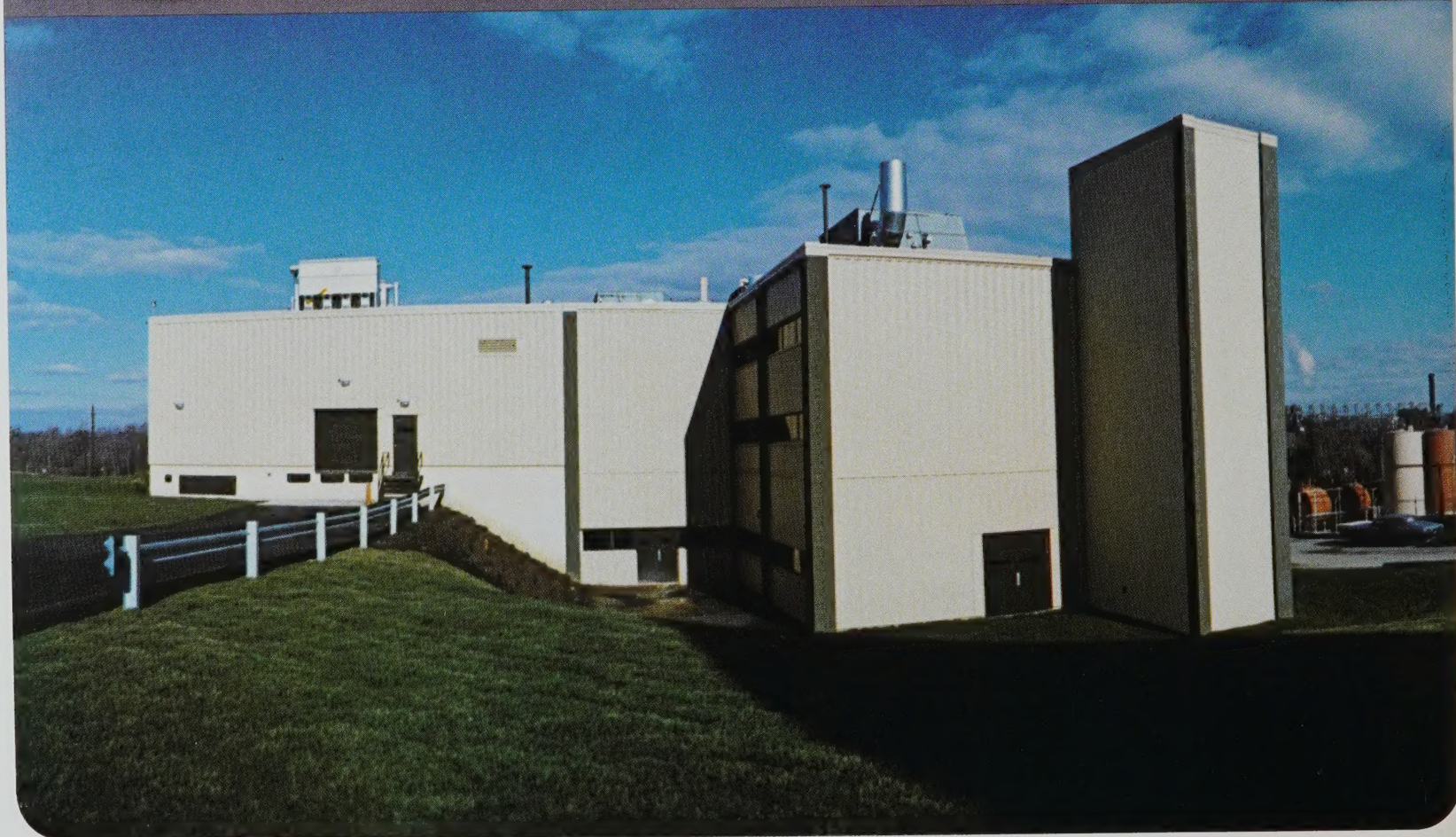
We also continued to expand our major existing product lines. Sales of 'Dyazide', our diuretic-antihypertensive compound, and 'Dyrenium', our potassium-conserving diuretic, increased in the United States by 32% during the year. An estimated 23 million Americans—about 10% of the population—are hypertensive and the complications of hypertension are responsible for more than one million deaths or disabling illnesses each year. During the year, we participated in the professional information phase of the National High Blood Pressure Education Program. This unprecedented effort is being conducted by government and voluntary health agencies to prevent death and disability from hypertension, which can be controlled, if not cured, by therapy.

In January, 1974, we sponsored "Grand Rounds in Medicine: The Hypertensive Patient," a major contribution to the national high blood pressure education program and to continuing medical education. Internationally prominent specialists in hypertensive research and treatment participated in this symposium via a closed-circuit television network that joined 24 cities in the United States and Canada. Our support of educational activities relating to hypertension will continue throughout 1974.

Because of the medical utility of 'Dyrenium' and 'Dyazide' and the increased awareness that hypertension can be controlled by therapy, we expect these products to increase in volume and market share in 1974.

During 1973, we continued to experience competition to our

'Ancef', our new injectable cephalosporin antibiotic, is especially useful in hospitals, where penicillin-resistant bacteria have become a problem



tranquilizer, 'Thorazine', our brand of chlorpromazine, for which the patent expired in 1970. Despite the competition, we were pleased with the performance of this product. We are confident that the continued acceptance of 'Thorazine' by physicians and our wide range of dosage forms will enable us to maintain a strong position in the chlorpromazine market.

The solid performance of 'Ornex' and 'Ornacol', the over-the-counter products we have added to our ethical cough-cold-allergy line in the past several years, contributed to the increased sales registered by the line during 1973.

'Ornex' is specifically formulated for the temporary relief of discomfort due to acute and chronic sinusitis and has the important advantage of containing no antihistamines or sedatives that might cause drowsiness. 'Ornacol', which is indicated for temporary relief from coughing and nasal congestion, also is formulated without sedatives or antihistamines. 'Ornacol' avoids the possibility of drowsiness often experienced by patients taking other cough-cold preparations. Both products have been well received and are growing faster than the market average.

In March, 1973, we introduced two analgesic products, 'SK-65' and 'SK-65 Compound', in the United States, thereby becoming the first major pharmaceutical company to enter the propoxyphene market following expiration of the 'Darvon' patent of Eli Lilly & Co. In 1972, 'Darvon' was the second most widely prescribed pharmaceutical product in the United States. First-year sales of our products, marketed as part of our 'SK-Line' of branded generic pharmaceuticals, were well on target.

Total sales of the 'SK-Line', introduced in 1971 to provide physicians with a nationally distributed line of high-quality,

widely used ethical drug products at prices significantly below the leading brand name competition, also exceeded expectations. Especially strong sales were registered by the antibiotic products in the line.

For the past several years, we have been strengthening our pharmaceutical operations in international markets and we are now benefiting from this investment. In 1973, sales increased substantially. Growth took place in leading product lines, including our tranquilizers, diuretic-antihypertensive agents, anticholinergic-tranquilizer combinations and cold products. Notable sales increases were achieved in Europe, Australia, Africa and the Middle East.

In January, 1974, we acquired Laboratórios Enila-Lutécia, S. A., a Brazilian pharmaceutical company based in Rio de Janeiro. Brazil's economy has experienced substantial growth in recent years and the market for all health care products and services is large and increasing rapidly.

SmithKline is already represented in Brazil through its subsidiary, Laboratório Smith Kline & French Limitada. Acquisition of Enila-Lutécia strengthens our presence in this important market and provides us with manufacturing facilities. It also broadens our base for marketing new products in all of our business operations in the future.

To satisfy the demands of our growing international pharmaceutical business, we began construction of a new pharmaceutical chemical manufacturing facility in the Republic of Ireland, on a 50-acre site in Curraghbinny, near Cork. As previously mentioned, we constructed a new antibiotic production facility in Upper Merion, Pennsylvania, and work continued on our new research and development facility in India, which should be fully operational in 1974.

Sales of the antibiotic products in the 'SK-Line' (upper left) were particularly strong in 1973. The analgesic products we introduced, 'SK-65' and 'SK-65 Compound', were well received by the medical profession.

We have completed construction of a chemical manufacturing plant (left) for our new cephalosporin production facility in Upper Merion, Pennsylvania.



The symposium, "Grand Rounds in Medicine: The Hypertensive Patient," provided physicians with a significant continuing education program. Dr. James C. Hunt, of the Mayo Clinic and Mayo Medical School (right), led the discussions with his colleagues (from left): Frank A. Finnerty, Jr., M.D., Georgetown University Medical Center; John H. Laragh, M.D., Columbia University College of Physicians and Surgeons; program host Louis Tobian, M.D., University of Minnesota Medical School; and Theodore Cooper, M.D., Director, National Heart and Lung Institute.

Photograph Courtesy of Nebraska Game and Parks Commission.



Our animal health products safeguard the health of livestock and pets. New vaccines introduced in 1973 by Norden Laboratories protect horses, cattle and young puppies from disease. We are awaiting government approval to market virginiamycin, our antibiotic feed additive, in the United States for use in swine.

ANIMAL HEALTH PRODUCTS

Sales of our worldwide animal health products business increased dramatically in 1973, growing 30% to \$37 million. Further growth is anticipated in 1974 as intensified worldwide demand continues for products to improve the health care of livestock and pets.

The animal health industry offers a large world market, currently estimated at more than \$1 billion. The market has two major segments: pharmaceutical and biological products; and feed additives that supplement livestock feed to promote growth and prevent or treat disease. The growth of our business in 1973 reflects gains in both areas.



In the pharmaceutical and biological segment, our subsidiary, Norden Laboratories, Inc., further solidified its role as the leading producer of ethical veterinary products in the United States. The key to Norden's growth has been the development of unique new products that are marketed only through veterinarians. Approximately 40% of Norden's sales resulted from products introduced in the past six years.

The company enjoys excellent rapport with the veterinary profession and has the largest veterinary sales force in North America. Norden management believes the role of the veterinarian in animal health care will increase in importance in

the years ahead as a result of the increasing size and sophistication of livestock production.

Norden is the foremost company in the small animal biological market, which is composed primarily of canine and feline rabies and distemper vaccines. One of three major new products that Norden introduced in 1973 is 'Enduracell D-M', which offers superior distemper protection for young puppies.

During 1973, Norden also improved its position in the large animal vaccine market. This was facilitated by the introduction of two new products: 'Scourvax-Reo', a vaccine to prevent viral diarrhea in newborn calves, which is a major problem in raising beef and dairy cattle; and 'Rhinomune', a vaccine to prevent upper respiratory disease and abortion in horses. Additional large animal vaccines are under development and we expect to increase our penetration in this important market segment.

In our international animal health business, which includes feed additives, pharmaceuticals and biologicals, sales increased 38% in 1973.

Worldwide demand for the protein derived from meat, combined with sharply increased prices for grain used in animal feeds, created greater demand for our antibiotic feed additive, virginiamycin. This product is used as a growth promoter in swine, calves and poultry and is especially useful in the prevention and control of swine dysentery. Virginiamycin has distinct advantages over competing products and substantial sales increases were registered in international markets during 1973. We are waiting for United States Food and Drug Administration approval to market virginiamycin in this country.

High global demand for wool in 1973 helped create record sales of parbendazole, our broad-spectrum worming compound. Parbendazole is effective against a broad range of parasites and is used in sheep and cattle in many areas of the world. Sales were particularly strong in the major wool-producing nations of Australia and New Zealand.

In the United States, sales of 'Bloat Guard', our product for the prevention of legume bloat, increased as beef producers and dairymen sought cheaper ways to feed cattle. More and more cattlemen are pasturing their herds on alfalfa. Alfalfa is rich in protein and relatively inexpensive, but may cause legume bloat—a condition that reduces weight gain and may be fatal. Further sales increases for 'Bloat Guard' are anticipated in 1974.



CONSUMER PRODUCTS

Worldwide sales of our consumer products declined 4% to \$111 million. Despite strength in our domestic operations, total sales declined primarily because of marketing problems of a nonrecurring nature that we experienced in Japan.

The soft condition of the Japanese vitamin market and the restrictions imposed by the Health Ministry adversely affected our product 'Vitime', a sustained release vitamin we marketed only in Japan. As a result, we suffered large returns and ceased promotion of the product.

In our worldwide proprietary business, 'Contac', our popular cold and hay fever product, continued to be the sales leader in its field. We are pleased with the strong position of 'Contac' in this highly competitive market and we will provide the support needed for it to maintain its leadership.

Sales of other proprietary products continued to grow. 'Sine-Off' tablets, our brand in the rapidly growing sinus headache market, increased its market share during the year.

Sea & Ski further strengthened its position as the number two brand in the United States sun care market. Sales of the company's new 'Golden Tan' fast-tanning moisturizing lotion, introduced during 1972, more than doubled in 1973. In Australia, our other major sun care market, Sea & Ski sales increased more than 85% for the year. Volume of Sea & Ski's 'Lipsaver' lip balm continued to grow in the United States.

Worldwide sales of 'Love' Cosmetics increased moderately during the year despite a softening of the lemon fragrance products market in the United States. The performance of the lemon line was offset by the successful introduction of three new products in this country and increased international sales.

The new 'Love' products introduced in the United States found strong consumer acceptance and quickly became part of the established line. Reflecting the great popularity of musk as a scent, 'Love's Sensuous Scents' combine musk with three natural fragrance blends and have been enthusiastically

received by young people. 'Love's Nail Color', with 12 contemporary shades, was developed in response to revived interest in nail coloring by women of all ages and continues to sell well. The success of 'Love's Natural Essence Shampoos' and 'Love's Natural Essence Creme Rinse', four pure, natural hair care preparations rich in protein, demonstrates the continued high degree of consumer interest in natural products.

In Japan, cosmetics sales increased as a result of broadened distribution and successful in-store promotions. Young Japanese women desiring a modern look responded enthusiastically to the 'Love' line's fresh, natural appeal. We plan to continue to concentrate on the young Japanese consumer as we develop and promote the line in 1974 and also plan additional increases in our distribution network.

In the United Kingdom, 'Love' is being marketed through a licensing agreement with The Boots Company, Ltd. of England. Boots is one of Britain's largest manufacturers and distributors of cosmetics and toiletries and its more than 1400 retail outlets account for approximately one-third of the total United Kingdom cosmetics business. 'Love' was introduced successfully in April and is continuing to perform satisfactorily.

Avoset Food Corporation, our specialty food subsidiary, experienced a year of solid growth and was able to overcome the profit squeeze resulting from the increased cost of raw materials. During the year, the company expanded its product line to include several health-oriented products, including a pleasant-tasting, non-dairy creamer that contains no cholesterol or sugar, is low in sodium and meets a variety of diet needs. These products will serve as the base for additional new product introductions in 1974.

Avoset also continued its penetration into the growing institutional segment of the food market. To maximize this growth, Avoset increased its promotional activity, expanded the number of food brokers representing it across the nation and integrated the company's own sales efforts with those of the brokers. These new programs will continue in 1974.

'Contac' continued to be the market leader among cold and hay fever products. New product introductions marked the progress of Avoset Food Corporation and 'Love' Cosmetics.



INDUSTRIAL PRODUCTS

Ultrasonic nondestructive testing systems in use in North America and Europe conserve energy by safeguarding supplies of petroleum and natural gas. The lightweight, portable systems detect the minute flaws in pipelines and containers that eventually lead to leakage. An ultrasonic flaw detector (left) tests the weld integrity of a new gas pipeline under construction in Germany.

Sales of our industrial products continued to grow worldwide at a rapid pace, increasing 31% for the year and bringing the total volume to \$48 million.

Increases in sales were registered by all segments of our ultrasonic equipment business and resulted from new and improved technology, expanded product lines and better market coverage.

The three major segments of this business are: nondestructive testing; ultrasonic assembly; and ultrasonic cleaning.

In nondestructive testing, ultrasonic energy is beamed into the material to be tested to determine the presence of flaws as well as the thickness or composition of the material.

In ultrasonic assembly, ultrasonic energy welds plastics and other synthetics, fuses metals, and enhances soldering and machining operations.

In ultrasonic cleaning, ultrasonic energy is used with a liquid solution to create a scrubbing action that lifts grease and other foreign material from objects.

All three of our ultrasonic businesses have strong worldwide capabilities and potential for future development. Current sales are about evenly divided between the United States and international markets, and we anticipate steady growth in both sectors.

In 1973, our nondestructive testing business set new highs in sales. The prospects for the future of this business are excellent because safety, rising standards of quality and environmental considerations ensure an ongoing need for nondestructive testing.

We have recently entered the eddy-current market, which is nondestructive testing by means of electromagnetic energy. The total market for nondestructive testing is estimated at \$200 million and growing. The demand for testing by eddy current and ultrasound is growing at a greater pace than the total nondestructive testing market, and we believe that testing by these two methods will account for more than one-third of the total market by 1977.

The 1972 acquisition of Krautkrämer G.m.b.H. of Cologne,



West Germany, improved our market position in Western Europe, Poland, Russia and Japan. Krautkrämer's outstanding technical expertise also gave us an opportunity to develop the extremely sophisticated ultrasonic instrumentation needed for integration into automated production lines.

During the year, we successfully introduced a high-speed welding inspection system for tubing and a unique portable flaw detector. The new detector uses a series of light-emitting diodes to provide the technician with a light source that pinpoints the location of a flaw in the metal being tested.

We are the leader in the use of ultrasonic energy for plastics assembly applications. We supply equipment for uses ranging from the assembly of automotive taillights to the assembly of plastic cases for batteries, toys and toothpaste tubes. We are the largest supplier of special ultrasonic plastic welding equipment to the automotive industry, which has increased the use of plastics in place of heavier materials in an attempt to lighten the weight of vehicles.

We have also developed new applications that are now in use in many parts of industry. For example, automobile manufacturers are using our ultrasonic metal welding equipment in several assembly applications. Ultrasonic welding is particularly advantageous when dissimilar metals must be joined.

Another facet of our operations is ultrasonic sewing, where

sales also increased in 1973. The use of this technique by manufacturers in the bedding industry has grown considerably. Ultrasonics eliminates many expenses associated with conventional quilting and sewing operations, while producing a more durable product. Ultrasonically sewn bedspreads and mattress pads are now featured in major retail stores.

Our ultrasonic cleaning business had a strong year, both in the United States and abroad. In this field, our high-technology capability also is responding to the challenge of meeting higher standards required by increased environmental concern. Our new 40 kHz power generators and transducers provide users of our industrial cleaning equipment maximum safety margins in meeting permissible sound levels under the Occupational Safety and Health Act. In addition, our ultrasonic cleaning system can use solvents that are nontoxic—another area in which increased government controls are expected.

American Polarizers, Inc. maintained its position as the second leading supplier of polarized lens material for sunglass, ski goggle and related eyewear manufacturers while continuing to expand its operations in other areas. Its 'Eclipse' polarized window filters for aircraft, already widely used by manufacturers of business and pleasure airplanes, are now being tested by commercial carriers in the United States and Europe.

Automobile manufacturers are using our ultrasonic plastic and metal welding equipment in a variety of assembly applications, such as welding copper in the armature assembly of a starting motor (left).



Our ultrasonic equipment plays an important part in the production of the Bowmar Brain® office calculator, manufactured by Bowmar/ALI, Inc.

A successful field trial of the 'Hematrak' Automated Differential Counter, an instrument for the analysis of white blood cells, has been completed at the Wilmington Medical Center in Wilmington, Delaware.



MEDICAL INSTRUMENTS AND DIAGNOSTICS

In January, 1974, we consolidated all of our diagnostic operations into a single division—Medical Instruments and Diagnostics. This division now includes our clinical laboratories, Smith Kline Instruments, Inc., Geometric Data Corporation, Smith Kline Diagnostics and Smith Kline Surgical Specialties. The latter two businesses formerly were part of our human pharmaceutical operations.

Total sales of these operations in 1973 increased 16% to \$29 million, with the major increase taking place in our clinical laboratories business.

We have seven large clinical laboratory facilities—six in the United States and one in Canada. Laboratory tests are used by physicians as an aid in diagnosing diseases and physiological conditions. Our laboratories provide a full selection of tests covering all disciplines of laboratory medicine. These tests are performed by trained technologists under the direction of board-certified pathologists.

Our clinical laboratory operations are in a fast-growing area of the health care industry. They present us with promising opportunities to expand our scientific capabilities and further increase our volume. During the year, we constructed new facilities, completing a centralized laboratory for our Patterson and Coleman Laboratories in Florida and beginning work on new facilities for the Biskind Laboratory in California.

The importance to the medical profession of new diagnostic tools accounted for the sales increase registered by Smith Kline Instruments, Inc., our medical instruments subsidiary. SKI experienced increased demand for its 'Ekoline' series of ultrasonic diagnostic instruments, with applications now mainly in cardiology. The 'Ekoline' instruments examine the soft tissues of the body by transmitting brief pulses of ultrahigh frequency sound into the tissue, receiving echoes produced by the reflection of sound and then displaying these echoes on a screen, along with a distance-calibrated trace.

SKI accelerated its activity in international markets, where sales increased some 40%. This result was primarily attributable to sales of 'Eskalab' clinical chemistry products supplied to clinical laboratories.

Smith Kline Diagnostics established its own sales force during the year. Its 'Clinicult' Diagnostic Culturing System, which enables physicians to test in the office for the presence of common infection-causing organisms in patients, is now used by more than 15,000 physicians. More than 25,000 physicians now use another of our diagnostic products, the

'Hemocult' slides, which received national attention in 1973 for use in community-wide screening as a first step in detecting cancer of the colon.

Our Smith Kline Surgical Specialties business experienced increased sales in 1973 with its line of orthopedic instruments and implants, which are marketed in North America and Great Britain. During 1974, we plan to introduce a new porous biomaterial for dentofacial implant procedures that will fill a need in the fields of oral and plastic surgery and otolaryngology.

Our subsidiary, Geometric Data Corporation, completed successful field trials of its 'Hematrak' Automated Differential Counter, an instrument for the analysis of white blood cells. The 'Hematrak' system consists of a microscope, optical scanner and a computer. Together, they function as an "intelligent microscope" that permits a technician to screen hundreds of blood specimens daily while reducing the time, cost and tedium of such examinations.

'Hematrak' was exhibited at a seminar held in conjunction with the American Society of Clinical Pathologists Convention in Chicago in October. We were encouraged by the reception it received and marketing is expected to begin in 1974.



The 'Hemaprep' Automated Smearing Instrument, developed by Geometric Data Corporation in 1973, produces consistent quality blood smears.

A molecular model of a histamine H₂-receptor antagonist, one of a new class of human pharmacological agents discovered in our United Kingdom research laboratories.



Norden Laboratories is developing a companion product to 'Scourvax-Reo'. The new vaccine will protect older calves from diarrhea caused by corona virus.



RESEARCH AND DEVELOPMENT

During 1973, substantial progress was achieved in our \$40 million worldwide research and development program by a number of our business operations.

In human pharmaceuticals, work with antibiotics brought 'Ancef', our major new injectable cephalosporin, to market and resulted in the introduction of cephadrine, our orally active cephalosporin product, in several additional international markets. Experimental work with other cephalosporin compounds is continuing within the framework of a broad-based antibiotic research program in the United States, Europe and India.

There has been considerable enthusiasm within the scientific community about the discovery in our United Kingdom research laboratories of a new class of pharmacological agents that shows early promise of having significant medical application. Known as histamine H₂-receptor antagonists, these compounds have as one of their major actions the ability to block gastric secretion in a unique biological manner.

The discovery of the H₂ antagonists resulted from more than seven years of intensive research at the Research Institute of Smith Kline & French Laboratories Limited, in Welwyn Garden City, near London. The significance of the discovery was evidenced when world leaders in gastrointestinal research attended a special scientific symposium devoted to the H₂ antagonists held in London in October. At that time great interest was expressed because of the compounds' novel pharmacological activity and their potentially important therapeutic applications.

Early clinical trials in the United Kingdom and the United States support the potential therapeutic use for this class of compounds in the treatment of peptic ulcer and other conditions associated with increased gastric acid production. Clinical trials are being expanded on a worldwide basis.

Results of our own research and that of others to date indicate that the H₂ antagonists may have a therapeutic potential beyond the inhibition of gastric hypersecretion. We are therefore continuing research programs that are exploring the usefulness of this scientific discovery in other areas of substantial medical significance.

Continuing our search for new human vaccines, we expect to be the first company in the world to market a live, attenuated vaccine against influenza. This intranasal vaccine is the result of research by scientists in our Belgian laboratories, Recherche et Industrie Thérapeutiques, which also marketed the world's first vaccine against rubella (German measles). The influenza vaccine is medically significant because influenza is the only infectious disease that continues to appear in life-threatening pandemics. Initial introduction of the vaccine is expected to take place in Europe in 1974.

A new bronchodilator product, discovered in our United States laboratories, is expected to be introduced internation-

ally by 1975. The product widens airways without speeding up the patient's heartbeat, and we believe it to be effective new therapy in the treatment of respiratory disorders.

Our worldwide research effort is also seeking new therapies for coronary artery disease and for hypertension in cardiovascular research programs being conducted in the United States and the United Kingdom. An antihypertensive compound from this program is currently being studied in man.

In the animal health field, the combined research facilities of Norden Laboratories, in Lincoln, Nebraska, and Recherche et Industrie Thérapeutiques, our center for vaccine research, in Rixensart, Belgium, provide one of the most productive animal vaccine programs in the world. This research is aimed at producing unique specialty products for both pets and livestock.

In 1973, three important new vaccines—for cattle, horses and dogs—were introduced in the United States. As a companion product to the new vaccine 'Scourvax-Reo', which protects newborn beef and dairy calves against calf scours caused by the reo virus, we are developing a new vaccine for calf scours attributable to another virus—the corona virus. New vaccines for other species of livestock and pets are also under development.

In the feed additive field, we have submitted United States New Animal Drug Applications for our antibiotic virginiamycin, used to promote weight gain and feed efficiency in swine and to prevent and treat swine dysentery. We expect approval to market in the United States in 1974. We are also developing a new anthelmintic for use in sheep, cattle and swine.

Our Animal Health Research Center at Applebrook, in Chester County, Pennsylvania, is continuing to focus its long-range research programs on products to increase the feed efficiency and promote the growth of beef cattle. This research is especially significant because of the increasing worldwide demand for animal protein. It takes approximately seven pounds of feed to produce one pound of beef, and researchers at Applebrook are seeking products to reduce this ratio—which would result in significant cost reduction in the cattle industry.

Research in ultrasound and related technologies continues to be important to our corporate growth. In recent years, this research has produced new applications for nondestructive testing of a variety of materials; a new and more efficient power supply for ultrasonic cleaning equipment as well as new household and industrial applications for the equipment; advances in ultrasonic metal welding; and new ultrasonic sewing equipment.

The development of Geometric Data Corporation's 'Hematrak' Automated Differential Counter for the analysis of white blood cells is an example of our research and development in

the medical services and instruments field. The continued search for new diagnostic methods in this field also led, in 1973, to our development of the 'Hemaprep' Automated Smearing Instrument, which produces consistent quality blood smears. We also developed a test for toxoplasmosis, a disease that can be fatal or lead to congenital problems in an infant whose mother contracts the infection during pregnancy.

For the past three years, we have been working with the Tecna Corporation of Emeryville, California, to develop advanced life support instrumentation. The first product to emerge from this cooperative effort is a disposable blood oxygenator that acts as an artificial lung. The oxygenator will be used during surgical procedures that require the patient's heart and lung to be bypassed. We plan to market it in 1974.

SOCIAL ACTION

SmithKline Corporation believes that programs to achieve profitable growth must be accompanied by our being attentive and responsive to the needs and desires of our community and the general public. In the interest of environmental protection, we monitor all of our worldwide operations to ensure that they are not contributing to pollution. We have instituted programs to conserve energy and materials in our operations, and our new facilities are being designed to minimize power consumption.

Our activities in the Spring Garden community, an impoverished 17-block area of the city near our corporate headquarters, continue to emphasize youth development. In 1966, when our programs began there, only an average of two children from the neighborhood finished high school each year and none went to college.

Today, more than 20 students, who are members of Potentials, our youth development and training program, are in college. Also, 34 area boys and girls attend a special high school that conducts classes in one of the Company's buildings.

There have been other positive changes. When we established our Information Services Center seven years ago for the purpose of counseling and assisting the residents of the Spring Garden area, there were only three agencies in the neighborhood offering social services and health care. Now there are four health centers and 40 social agencies providing services to the community.

Our effort to rehabilitate housing for low-income families of the area has been followed by new construction by private developers and today the neighborhood has achieved a more balanced mix, ethnically and economically. Crime has decreased, and government statistics reveal that juvenile crime in particular has fallen dramatically since the start of our community activities.

Our community involvement extends beyond the Spring Garden area. In 1968, SmithKline Corporation initiated a Business Experience Education Program (BEEP) within the Company. Disadvantaged students selected from various Philadelphia high schools were given part-time work in the Company after school hours. BEEP's objective was to give these students a taste of the working world, to introduce them to possible new fields of interest and to motivate them for the future. More than 100 students have participated in BEEP. Many are now attending college or have jobs with the Company or elsewhere.

In 1973, SmithKline Corporation began participating in the activities of the Emergency Medical Services Council of the Philadelphia Health Management Corporation. The Council is composed of representatives from municipal government, medicine, and public and private agencies in the health care field and is developing plans for the establishment of a city-wide Emergency Medical Services System in Philadelphia.

Lack of comprehensive coordinated emergency medical service results in the loss of many lives yearly from accidents on the highways, at work or at home. It is also estimated that some 10% of all deaths resulting from heart disease could be prevented by proper emergency services. Through our efforts, we hope to enlist the support of Philadelphia business in the further development of a lifesaving system.

Various charitable, educational, civic, cultural, medical and scientific organizations and institutions have received direct financial support over the years from SmithKline Corporation and the SmithKline Foundation. The Foundation also matches gifts from employees of the Company to colleges, graduate schools, independent secondary schools and hospitals. As one of the first companies to have such a program, we are pleased that our employees and the Foundation have provided these institutions over the years with close to \$3 million.

The Company has earmarked funds to be used as assistance grants for scientific education. Recognizing the need for more minority representation in the physical and biological sciences, these grants provide funds for the living expenses of talented minority students pursuing graduate study in the fields of chemistry, biology, physics or mathematics.

ON BEHALF OF A BETTER UNDERSTANDING OF THE ECONOMICS OF SMITHKLINE AND THE PHARMACEUTICAL INDUSTRY

We frequently hear economists refer to companies as "labor-intensive" or "capital-intensive." Another category has a strong claim to special recognition—the "research and development-intensive" company. SmithKline Corporation is clearly such an enterprise. Continuous large-scale investment in the quest for new and improved drugs and medicines is one of our most outstanding economic features. The share of our pharmaceutical revenue expended for pharmaceutical R&D is almost ten times that of U.S. industry generally.

Despite the intangible nature of the asset—technical knowledge—created by R&D, most outlays for the acquisition of that asset are equivalent to outlays for such assets as plant and equipment. Both types of outlay are undertaken to produce income over a period of years, and both are therefore properly regarded by economists as having the essential character of an investment.

SmithKline and other major pharmaceutical companies invest considerably more funds in R&D than in plant and equipment. The reverse is true for manufacturing as a whole. Under generally accepted accounting rules, which are followed by SmithKline, R&D is treated as expense rather than investment. If one is comparing the rate of return on investment of the pharmaceutical industry with an industry which is not R&D-intensive, or with industry as a whole, a misleading comparison is created unless appropriate adjustments are made to reflect R&D as a capital investment. In a recent report, the Federal Trade Commission, which compiles the official government data on industry-by-industry profitability, has acknowledged the importance of such an adjustment in making an accurate determination of return on investment. As the FTC observes: "...the expensing of R&D costs usually leads to an overstatement of profitability, with the overstatement increasing with the intensity of R&D effort."

There are now available studies of the economics of R&D-intensiveness, which describe for SmithKline and other major pharmaceutical companies the effect of treating R&D outlays as investment, and which throw light on the question of a proper comparison of return on investment as between pharmaceutical companies and industry generally.

It is not the intention of SmithKline to depart from established accounting practice in the way we annually report R&D. We do hope, however, that the studies referred to will be useful in preventing misleading comparisons of rates of return. Copies of these studies are available by writing to our Shareholder Relations Department.

FINANCIAL REVIEW

Consolidated net sales for 1973 reached a new high of \$444,133,000 and exceeded 1972 sales by 10%, or \$41,805,000. Pretax earnings increased 6% to \$77,886,000. Net earnings were \$52,831,000, an increase of 8% from the previous year. Earnings per share were \$3.55, a gain of 8% over 1972 earnings per share of \$3.28. Earnings per share computations are based on the average number of shares outstanding during the respective years. In 1973, the average number of shares outstanding was 14,881,000, compared with 14,904,000 in 1972.

Net sales from international operations in 1973 were \$124,351,000, or 28% of consolidated sales. This compares with 1972 international sales of \$108,150,000, or 27% of total sales. Net earnings from international operations declined from \$10,258,000 in 1972 to \$6,790,000. This decline occurred primarily because of a nonrecurring problem associated with the recall of a vitamin product in Japan. Expenses related to the recall have been fully provided for against 1973 earnings. Another contributing factor was substantial investment spending in major international markets.

Sales and net earnings from international operations have been converted into United States dollars at approximate average annual rates of exchange. During 1973, these conversion rates were higher on average than in 1972 because of the revaluation of world currencies. The effect on 1973 sales and net earnings was generally beneficial. Revaluation gains resulting from the conversion of international companies' balance sheets into United States dollars have been deferred and set up as a balance sheet reserve. This reserve totalled \$1,395,000 at the end of 1973, compared with \$380,000 at the end of 1972.

Net assets employed in international operations as of December 31, 1973 were \$64,937,000, compared with \$61,918,000 in 1972.

The Company paid dividends to its shareholders totalling \$29,767,000 in 1973, representing \$2.00 per share on the shares outstanding during the year. The fourth quarter dividend marked the 177th consecutive dividend payment by the Company. During the year, a program was established to enable shareholders to purchase the Company's stock through a dividend reinvestment plan.

Earnings of a domestic subsidiary operating in Puerto Rico are exempt from Puerto Rican and United States income taxes through 1979. These earnings cannot be distributed to the Company during the period of the exemption, except upon liquidation of the subsidiary, without sacrificing the tax benefits on the amount distributed. The earnings are presently invested in time deposits and marketable securities outside the United States. At the end of 1973, consolidated holdings of cash, time deposits, and marketable securities were \$95,643,000, an increase of \$32,939,000 over the prior year. The greatest portion of these holdings are attributable to the Puerto Rican operations.

Domestic short-term borrowings in the form of commercial paper supported by bank lines of credit have been undertaken to provide additional working capital. These borrowings amounted to \$55,357,000 at year end 1973, an increase of \$28,262,000 over 1972. It is anticipated that borrowings will increase during the period of the Puerto Rican tax exemption.

In addition to domestic borrowings, short-term lines of credit in overseas markets are utilized to provide financing for international subsidiaries. As of December 31, 1973, these borrowings were \$13,837,000, compared with \$6,518,000 in the previous year. The Company also has a \$14,000,000 revolving Eurodollar line of credit. Eurodollar borrowings at year end 1973 were \$13,000,000.

During 1973, consolidated net working capital increased \$20,239,000, from \$114,199,000 to \$134,438,000. The ratio of current assets to current liabilities declined slightly from 2.16:1 to 2.00:1 and reflects the effect of increased short-term borrowings necessitated by the requirement to hold Puerto Rican earnings offshore.

Capital expenditures for 1973 were \$16,123,000, compared with \$16,372,000 for 1972. Major capital projects included a new antibiotic production plant near Philadelphia and a research facility in India. During the year, land was purchased in Curraghbinny, near Cork, in the Republic of Ireland, for construction of a chemical production facility.

In the latter part of 1973, the Company entered into an agreement to acquire Laboratórios Enila-Lutécia, S.A., a Brazilian pharmaceutical company, for cash. The acquisition was completed in January 1974.

STATISTICAL SUMMARY

Dollar amounts in thousands, except per share figures

OPERATING RESULTS FOR THE YEAR	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>
Sales.	\$444,133	\$402,328	\$367,513	\$347,023	\$317,290
Cost of sales.	159,739	140,102	123,604	105,943	83,110
Marketing, administrative and general.	170,846	152,445	138,227	132,661	120,707
Research and development.	40,234	38,386	35,753	31,313	29,066
Earnings before income taxes.	77,886	73,585	70,427	78,224	86,744
Provision for income taxes.	25,055	24,651	24,353	34,570	45,918
Net earnings.	52,831	48,934	46,074	43,654	40,826
Earnings per share.	\$3.55	\$3.28	\$3.09	\$3.01	\$2.81
Dividends per share.	2.00	2.00	2.00	2.00	2.00
Depreciation included in costs and expenses.	9,630	8,259	7,441	7,657	5,819

FINANCIAL POSITION AT DECEMBER 31

Current assets.	\$268,840	\$212,708	\$173,641	\$146,962	\$143,870
Current liabilities.	134,402	98,509	71,867	55,472	55,176
Working capital.	134,438	114,199	101,774	91,490	88,694
Property, plant and equipment (net).	106,959	103,207	97,161	85,951	76,860
Capital expenditures.	16,123	16,372	16,373	17,601	12,620
Total assets.	410,938	353,979	307,155	264,305	244,143
Long-term debt.	13,877	14,115	15,571	11,513	9,359
Shareholders' equity.	253,112	233,780	213,029	192,477	175,748
Number of employees.	12,026	11,290	10,811	10,201	9,581

CONSOLIDATED BALANCE SHEET

December 31, 1973 and 1972

	<u>1973</u>	<u>1972</u>
ASSETS		
Current assets:		
Cash.	\$ 13,172,000	\$ 10,057,000
Time deposits.	79,341,000	49,271,000
Marketable securities, at cost which approximates market.	3,130,000	3,376,000
Accounts and notes receivable, less provision for losses: 1973—\$2,233,000; 1972—\$2,188,000.	98,556,000	87,683,000
Inventories:		
Finished products.	23,482,000	19,987,000
Work in process.	20,663,000	16,628,000
Raw materials and supplies.	23,809,000	19,952,000
	<u>67,954,000</u>	<u>56,567,000</u>
Prepaid expenses.	6,687,000	5,754,000
Total current assets.	<u>268,840,000</u>	<u>212,708,000</u>
Investments and other assets.	4,921,000	4,842,000
Property, plant and equipment:		
Land.	6,410,000	5,764,000
Buildings.	95,811,000	92,342,000
Machinery and equipment.	82,306,000	75,050,000
	<u>184,527,000</u>	<u>173,156,000</u>
Less accumulated depreciation.	77,568,000	69,949,000
	<u>106,959,000</u>	<u>103,207,000</u>
Deferred income taxes.	2,454,000	3,418,000
Goodwill and other intangibles.	27,764,000	29,804,000
	<u>\$410,938,000</u>	<u>\$353,979,000</u>

See accompanying notes to consolidated financial statements.

	<u>1973</u>	<u>1972</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable.	\$ 69,194,000	\$ 33,613,000
Accounts payable.	25,585,000	20,523,000
Accrued expenses.	27,445,000	27,280,000
Income taxes.	<u>12,178,000</u>	<u>17,093,000</u>
Total current liabilities.	<u>134,402,000</u>	<u>98,509,000</u>
Long-term debt.	13,877,000	14,115,000
Reserves for self-insurance, etc..	9,547,000	7,575,000
Shareholders' equity:		
Common stock \$1.00 par value: Authorized 25,000,000 shares (1972 — 18,000,000 shares); issued 14,993,228 shares at par value (1972 at stated value).	14,993,000	26,205,000
Capital in excess of par value.	11,212,000	—
Earnings retained in the business.	<u>234,908,000</u>	<u>211,854,000</u>
	261,113,000	238,059,000
Less common stock in treasury, at cost:		
1973 — 145,565 shares; 1972 — 73,378 shares.	<u>8,001,000</u>	<u>4,279,000</u>
Total shareholders' equity.	<u>253,112,000</u>	<u>233,780,000</u>
	<u><u>\$410,938,000</u></u>	<u><u>\$353,979,000</u></u>

CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31, 1973 and 1972

	<u>1973</u>	<u>1972</u>
CURRENT EARNINGS		
Income:		
Sales.	\$444,133,000	\$402,328,000
Interest income.	5,739,000	2,711,000
Royalties and other income.	6,520,000	4,155,000
	<u>456,392,000</u>	<u>409,194,000</u>
Costs and expenses:		
Cost of sales.	159,739,000	140,102,000
Marketing, administrative and general.	170,846,000	152,445,000
Research and development.	40,234,000	38,386,000
Interest expense.	5,977,000	2,599,000
Other expenses.	1,710,000	2,077,000
	<u>378,506,000</u>	<u>335,609,000</u>
Earnings before income taxes.	77,886,000	73,585,000
Provision for income taxes.	25,055,000	24,651,000
Net earnings.	<u>\$ 52,831,000</u>	<u>\$ 48,934,000</u>
Net earnings per share (based on average shares: 1973 — 14,881,000; 1972 — 14,904,000).	<u>\$ 3.55</u>	<u>\$ 3.28</u>

EARNINGS RETAINED IN THE BUSINESS

Beginning of year.	\$211,854,000	\$208,646,000
Excess of cost over proceeds of treasury shares issued upon exercise of stock options: 1973 — 1,513 shares; 1972 — 27,874 shares.	(10,000)	(178,000)
Transfer to common stock account.	—	(15,918,000)
Net earnings for the year.	<u>52,831,000</u>	<u>48,934,000</u>
	264,675,000	241,484,000
Deduct cash dividends paid — \$2.00 per share.	<u>29,767,000</u>	<u>29,630,000</u>
End of year.	<u>\$234,908,000</u>	<u>\$211,854,000</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1973 and 1972

	<u>1973</u>	<u>1972</u>
SOURCE OF FUNDS:		
Net earnings.	\$52,831,000	\$48,934,000
Depreciation.	9,630,000	8,259,000
Deferred income taxes.	964,000	(550,000)
Reserves for self-insurance, etc.	1,972,000	887,000
Funds provided from operations.	65,397,000	57,530,000
Disposal of property, plant and equipment.	3,121,000	2,067,000
Proceeds from stock options exercised.	79,000	1,447,000
Other, net.	1,581,000	(1,161,000)
Total source of funds.	<u>70,178,000</u>	<u>59,883,000</u>
APPLICATION OF FUNDS:		
Dividends.	29,767,000	29,630,000
Capital expenditures.	16,123,000	16,372,000
Decrease in long-term debt.	238,000	1,456,000
Purchase of treasury stock.	3,811,000	—
Total application of funds.	49,939,000	47,458,000
Increase in working capital.	<u>\$20,239,000</u>	<u>\$12,425,000</u>
COMPONENTS OF WORKING CAPITAL—INCREASE (DECREASE):		
Current assets:		
Cash.	\$ 3,115,000	\$ (2,497,000)
Time deposits and marketable securities.	29,824,000	26,716,000
Accounts and notes receivable.	10,873,000	17,598,000
Inventories.	11,387,000	(2,813,000)
Prepaid expenses.	933,000	63,000
	<u>56,132,000</u>	<u>39,067,000</u>
Current liabilities:		
Notes payable.	(35,581,000)	(15,280,000)
Accounts payable.	(5,062,000)	(2,969,000)
Accrued expenses.	(165,000)	(6,438,000)
Income taxes.	4,915,000	(1,955,000)
	<u>(35,893,000)</u>	<u>(26,642,000)</u>
Increase in working capital.	<u>\$20,239,000</u>	<u>\$12,425,000</u>

See accompanying notes to consolidated financial statements.

ACCOUNTANTS' REPORT

The Shareholders
SmithKline Corporation:

We have examined the consolidated balance sheet of SmithKline Corporation (formerly Smith Kline & French Laboratories) and subsidiaries as of December 31, 1973 and 1972 and the related consolidated statements of earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of SmithKline Corporation and subsidiaries at December 31, 1973 and 1972 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 14, 1974
1500 Walnut Street, Philadelphia, Pa. 19102

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of SmithKline Corporation, formerly Smith Kline & French Laboratories, and its subsidiaries except two minor subsidiaries which are carried at equity. The accounts of foreign subsidiaries are included for their fiscal years ended November 30. All material intercompany accounts and transactions are eliminated in consolidation.

Translation of Foreign Currencies

The accounts of foreign subsidiaries and branches included in the consolidated financial statements have been translated into U.S. dollars as follows: plant and equipment and related depreciation at approximate U.S. dollar equivalent of cost at dates of acquisition; all other asset and liability accounts at appropriate closing rates of exchange. Income and expense accounts, other than depreciation, have been translated at the weighted average of exchange rates which were in effect during the year.

Net unrealized translation gains are deferred in the accounts; net unrealized translation losses in excess of the previously deferred gains are charged against earnings. Realized exchange gains and losses are included in earnings. The Company accrues losses on unperformed forward exchange contracts and records gains when realized.

Inventories

Inventories are stated generally at the lower of average cost or market.

Investments and Other Assets

The Company's investment in two minor subsidiaries and its interest in a privately financed community redevelopment project are accounted for on the equity method. All other assets and investments are carried at cost.

Property, Plant and Equipment

Land, buildings, and machinery and equipment are carried at cost. The costs of additions and improvements are charged to the property accounts, while maintenance, repairs and renewals are charged to earnings when incurred. Upon retirement or other disposition of property, plant and equipment, the cost and related depreciation are removed from the accounts; the resulting gain or loss is reflected in earnings.

Depreciation

Depreciation is based on rates calculated to provide for retirement of property, plant and equipment at the end of its estimated useful life. The straight-line method of depreciation is used for accounting purposes and accelerated methods for income tax purposes.

Goodwill and Other Intangibles

Goodwill attributable to businesses purchased prior to November 1, 1970 is considered to have continuing value over an indefinite period and is not amortized. Minor amounts acquired after that date are being amortized over 40 years. Other intangibles are being amortized over their estimated useful lives.

Research and Development

Research and development expenditures are charged to earnings as incurred.

Income Taxes

United States income taxes are provided on current year's foreign earnings which are intended to be remitted to the parent company. No provision is made on the unremitted earnings which subsidiaries have or will reinvest in their operations. Deferred income taxes are provided on timing differences between book and tax income.

Investment tax credits, which are not material, are recorded under the flow-through method of accounting and are applied as a reduction of income taxes.

Retirement Plans

The Company and several of its subsidiaries have trustee, non-contributory pension plans which provide retirement benefits for eligible employees. Under the SmithKline Corporation Retirement Plan, the largest plan, pension costs are determined by the aggregate actuarial cost method. Pension costs under the other trustee plans are determined by various approved actuarial methods. All the aforementioned plans are funded currently.

Certain other subsidiaries have separate retirement plan arrangements which include insured plans and unfunded plans. The costs under these plans are expensed as incurred.

Earnings Per Share

Earnings per share of common stock are determined by using the weighted average number of common shares outstanding during the year. Retroactive adjustment is made whenever shares are issued in exchange for businesses acquired under the pooling of interests method.

(2) ACQUISITIONS

During 1972, the Company exchanged 351,724 shares of previously unissued stock for the entire ownership interest in Krautkrämer G.m.b.H. and Krautkramer Ultrasonics, Inc. These acquisitions have been accounted for as poolings of interests. In connection with this transaction, \$15,918,000 was transferred from earnings retained in the business to the common stock account as required by Pennsylvania law.

Certain other acquisition agreements provide for additional payments contingent upon the attainment of specified performance levels by the acquired companies. In connection with an acquisition treated as a pooling of interests, 1,559 treasury shares were issued in 1972. At December 31, 1973, the maximum contingency is approximately \$8,300,000.

(3) TIME DEPOSITS AND NOTES PAYABLE

The time deposits are owned principally by a domestic subsidiary operating in Puerto Rico. It is management's intention to defer repatriation of the funds until the tax exemption period expires in 1980.

Consequently, the Company has made short-term borrowings in the form of commercial paper.

Notes payable at December 31, 1973 include commercial paper in the amount of \$55,357,000 with interest rates ranging from 7-3/4% to 10%.

(4) INTERNATIONAL OPERATIONS

International operations (in thousands) are summarized as follows:

	<u>Sales</u>	<u>Net Earnings</u>	<u>Net Assets</u>
1973	\$124,351	\$ 6,790	\$64,937
% of Consolidated	28%	13%	26%
1972	\$108,150	\$10,258	\$61,918
% of Consolidated	27%	21%	26%

Unrealized foreign currency translation gains, net of losses, amounted to \$1,015,000 in 1973; losses exceeded gains by \$344,000 in 1972. Under the Company's accounting policy for foreign currency translation, the gains were deferred and the losses were charged to amounts previously deferred. Deferred gains, included in the balance sheet caption "Reserves for self-insurance, etc.," amounted to \$1,395,000 and \$380,000 at December 31, 1973 and 1972, respectively.

(5) INCOME TAXES

The provision for income taxes (in thousands) consists of the following:

	<u>Federal</u>	<u>Foreign</u>	<u>State</u>	<u>Total</u>
1973				
Current	\$15,106	\$6,807	\$2,178	\$24,091
Deferred	2,032	(1,269)	201	964
	<u>\$17,138</u>	<u>\$5,538</u>	<u>\$2,379</u>	<u>\$25,055</u>
1972				
Current	\$14,140	\$7,908	\$3,153	\$25,201
Deferred	(745)	267	(72)	(550)
	<u>\$13,395</u>	<u>\$8,175</u>	<u>\$3,081</u>	<u>\$24,651</u>

The total provision for income taxes for 1973 and 1972 amounted to 32.2% and 33.5%, respectively, of earnings before income taxes. The primary reason for the difference between the effective rates and the expected U.S. Federal income tax rate of 48% is that the income of a domestic subsidiary located in Puerto Rico is exempt from Puerto Rican and United States income taxes. The exemption reduced expected income taxes and increased net earnings by approximately \$13,000,000 (\$0.87 per share) in 1973 and \$11,000,000 (\$0.74 per share) in 1972.

Deferred income taxes result from timing differences relating principally to insurance, pensions and depreciation. In accordance with Company policy, no taxes were provided on cumulative unremitted foreign earnings of \$45,649,000 and \$43,604,000 at December 31, 1973 and 1972, respectively.

(6) LONG-TERM DEBT

Long-term debt at December 31, 1973 and 1972 amounting to \$13,877,000 and \$14,115,000, respectively, consisted primarily of \$13,000,000 Eurodollar borrowings, at lender's best rates (10.94% at December 31, 1973) under a revolving credit arrangement expiring in October 1976.

(7) COMMON STOCK

In 1973, the shareholders approved the proposal to increase the authorized common stock to 25,000,000 shares and to change the common stock from without par value to \$1.00 par value; this resulted in transferring \$11,212,000 from the common stock account to a new capital in excess of par value account.

Activity under the Company's qualified stock option plan is as follows:

	<u>1973</u>	<u>1972</u>
	<u>Number of Shares</u>	
Balance beginning of year	194,986	131,710
Options granted at fair market value (prices ranging from \$47.13 to \$59.56 per share)	11,546	98,071
Options exercised	(1,513)	(27,874)
Options cancelled	<u>(62,301)</u>	<u>(6,921)</u>
Balance end of year	<u>142,718</u>	<u>194,986</u>
Available for future grants	<u>225,090</u>	<u>174,335</u>

(8) RETIREMENT PLAN COSTS

Retirement plan costs charged to earnings amounted to \$4,600,000 in 1973 and \$4,079,000 in 1972, applicable principally to current costs as past service costs have been substantially funded.

(9) LEASE COMMITMENTS

Rental expenses charged to earnings amounted to \$5,573,000 in 1973 and \$4,784,000 in 1972.

Minimum annual rentals payable under operating leases with a remaining non-cancellable term of more than one year from December 31, 1973 are: 1974—\$1,766,000; 1975—\$1,525,000; 1976—\$1,178,000; 1977—\$1,031,000 and 1978—\$861,000. The aggregate rentals for the following periods are: 1979 to 1983—\$2,471,000; 1984 to 1988—\$938,000; 1989 to 1993—\$342,000; 1994 to 2058—\$70,000. Certain of the leases provide for payment of taxes, insurance and other charges by the lessee.

(10) SUBSEQUENT EVENT

In January 1974, the Company acquired all of the outstanding shares of Laboratórios Enila-Lutécia, S.A., a pharmaceutical company in Rio de Janeiro, for cash. This acquisition will be accounted for as a purchase and the operations will be consolidated beginning in January 1974.

The purchase price exceeded the net assets of the acquired company by approximately \$5,500,000 and this excess will be amortized over 40 years.

SMITHKLINE CORPORATION/1973 BOARD OF DIRECTORS

Samuel H. Ballam, Jr.
Director and President of
Fidelity Corporation
of Pennsylvania, and
The Fidelity Bank



Carter L. Burgess
Chairman of the Board of
Flagship International, Inc.,
subsidiary of American Airlines, Inc.



Morris Cheston
Partner, Ballard, Spahr,
Andrews & Ingersoll,
counsel for the Company



Alfred J. D'Angelo
Senior Vice President



Lewis E. Harris, Sc.D.
Chairman of the Board



Samuel P. Martin, M.D.
Professor of Community Medicine
and Medicine, School of Medicine,
and Professor of Community Medicine
in Health Care Systems,
Wharton School, University
of Pennsylvania

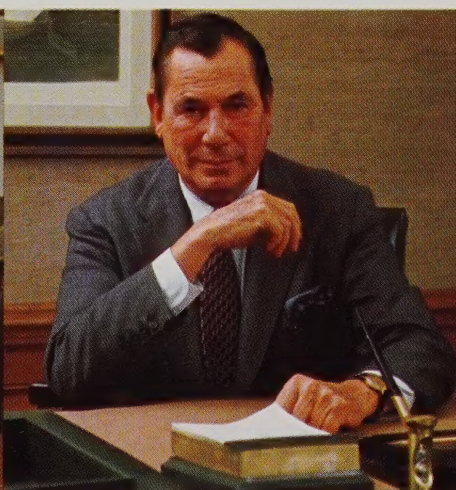


Thomas M. Rauch
Retired. Formerly, Chairman of
the Board of the Company

Robert F. Dee
President and
Chief Executive Officer



Thomas S. Gates
Director of J. P. Morgan & Co.
Incorporated and Morgan Guaranty
Trust Company of New York



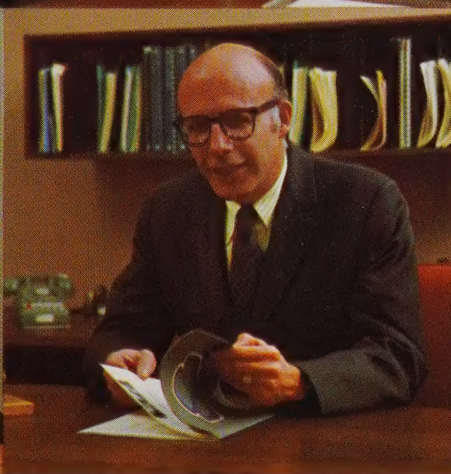
Courtlandt S. Gross
Director of
Lockheed Aircraft Corporation



William T. Rennie
Vice President, Finance



Miles Valentine
Retired. Formerly, an officer
and director of certain foreign
market subsidiaries of the Company



Donald van Roden
Group Vice President,
Pharmaceuticals



Henry Wendt
Group Vice President,
Consumer Products

On January 28, 1974, William R. Grant, President of
Smith, Barney & Co. Incorporated, was elected a
Director of the Corporation.

DIRECTORS

Lewis E. Harris, Sc.D., *Chairman*
Samuel H. Ballam, Jr.
Carter L. Burgess
Morris Cheston
Alfred J. D'Angelo
Robert F. Dee
Thomas S. Gates
William R. Grant
Courtlandt S. Gross
Samuel P. Martin, M.D.
Thomas M. Rauch
William T. Rennie
Miles Valentine
Donald van Roden
Henry Wendt

CORPORATE OFFICERS

Lewis E. Harris, Sc.D., *Chairman of the Board*
Robert F. Dee, *President and Chief Executive Officer*
Donald van Roden, *Group Vice President, Pharmaceuticals*
Henry Wendt, *Group Vice President, Consumer Products*
Alfred J. D'Angelo, *Senior Vice President*
William Steytler, Jr., *Senior Vice President*
Harold A. Clymer, *Vice President, Corporate Development and Planning*
Bryce Douglas, Ph.D., *Vice President, Pharmaceutical Research and Development*
Peter Godfrey, *Vice President, U.S. Consumer Products*
Peter Hickman, *Vice President, Animal Health Products*
Richard V. Holmes, *Vice President, Secretary and General Counsel*
Stanley E. Jacke, *Vice President, Industrial Products*
John K. Nevin, *Vice President, U.S. Pharmaceutical Operations*
William T. Rennie, *Vice President, Finance*
James E. Hamblen, *Treasurer*
Kurt W. Reiss, *Controller*

AUTOMATIC DIVIDEND REINVESTMENT PLAN

In 1973, the Company initiated a dividend reinvestment plan for SmithKline shareholders. The plan is administered by Morgan Guaranty Trust Company of New York.

Under the plan, cash dividends payable to shareholders who choose to participate are automatically reinvested in full and fractional shares of the Company's stock, purchased at prevailing market prices.

Participation is entirely voluntary, and those who do participate also have the option, if they wish, of purchasing additional SmithKline shares through voluntary cash payments.

Further information concerning the plan may be obtained from the Company's Shareholder Relations Department.

FACILITIES

Corporate Offices Philadelphia, Pa.	Research and Development Facilities Philadelphia, Pa. Upper Merion, Pa. Chester County, Pa. Wayne, Pa. Lincoln, Nebr. Gustine, Calif. Palo Alto, Calif. Danbury, Conn. Stamford, Conn. Australia Belgium Canada India South Africa United Kingdom West Germany
Manufacturing Facilities Pharmaceutical Products Philadelphia, Pa. Upper Merion, Pa. San Juan, Puerto Rico	
Animal Health Products Lincoln, Nebr.	
Consumer Products Philadelphia, Pa. Gustine, Calif. Washington Court House, Ohio Newburgh, N.Y. Reno, Nev.	
Instrument Products Palo Alto, Calif. Wayne, Pa.	Medical Laboratory Service Facilities Boston, Mass. Dallas, Tex. Los Angeles, Calif. St. Louis, Mo. San Francisco, Calif. Tampa, Fla. Edmonton, Canada
Industrial Products Danbury, Conn. Stamford, Conn. Shelton, Conn. Clark, N.J. Lewistown, Pa. Reading, Pa.	
International Australia Belgium Brazil Canada France India Italy Mexico The Netherlands Pakistan Philippines South Africa Spain United Kingdom West Germany	

PRINCIPAL COMPANIES AND DIVISIONS

American Polarizers, Inc., Reading, Pa.
 Avoset Food Corporation, Oakland, Calif.
 Branson (Europa) B.V., Soest, The Netherlands
 Branson Sonic Power Company, Danbury, Conn.
 Branson Ultrasonic Cleaning Division,
 Stamford, Conn.
 Krautkramer-Branson, Inc., Stamford, Conn.
 Krautkrämer G.m.b.H., Cologne, West Germany
 Laboratórios Enila-Lutécia, S.A., Rio de Janeiro, Brazil
 Menley & James Laboratories, Ltd., Philadelphia, Pa.
 Norden Laboratories, Inc., Lincoln, Nebr.
 Recherche et Industrie Thérapeutiques, S.A., Genval,
 Belgium
 Recherche et Industrie Thérapeutiques, S.A., Paris, France
 Ricerca e Industria Terapeutica S.p.A., Milan, Italy
 Sea & Ski Corporation, Reno, Nev.; Philadelphia, Pa.
 SK&F Co., San Juan, Puerto Rico
 Smith Kline & French Canada, Ltd., Montreal, Canada
 Smith Kline & French (India) Limited, Bangalore, India
 Smith Kline & French Inter-American Corporation,
 Philadelphia, Pa.; Lima, Peru; San Juan, Puerto
 Rico; Buenos Aires, Argentina
 Smith Kline & French International Co., Philadelphia, Pa.
 Smith Kline & French Laboratories, Philadelphia, Pa.
 Smith Kline & French Laboratories (Australia)
 Limited, French's Forest, New South Wales, Australia
 Smith Kline & French Laboratories Limited, Welwyn
 Garden City, England
 Smith Kline & French Overseas Co., Philadelphia, Pa.;
 Tokyo, Japan; Manila, Philippines
 Smith Kline & French (Proprietary) Limited, Isando,
 Transvaal, South Africa
 Smith Kline & French, S.A., Mexico City, Mexico
 Smith Kline & French, S.A.E., Alcála de Henares
 (Madrid), Spain
 Smith Kline Animal Health Products, Philadelphia, Pa.
 Smith Kline Diagnostics, Philadelphia, Pa.
 Smith Kline Instruments, Inc., Palo Alto, Calif.
 Smith Kline Medical Laboratory Services, Palo Alto, Calif.
 Smith Kline Surgical Specialties, Philadelphia, Pa.
 Vonara Chemie G.m.b.H., Darmstadt, West Germany

TRANSFER AGENTS

The Philadelphia National Bank, Philadelphia, Pa.
 Morgan Guaranty Trust Company, New York, N.Y.

REGISTRARS

The Fidelity Bank, Philadelphia, Pa.
 First National City Bank, New York, N.Y.

DIVIDEND DISBURSING AGENT

The Philadelphia National Bank, Philadelphia, Pa.

STOCK EXCHANGE LISTINGS

New York Stock Exchange
 PBW Stock Exchange
 Swiss Stock Exchanges

SmithKline Corporation
 1500 Spring Garden Street, Philadelphia, Pennsylvania 19101
 Phone: 215-564-2400

TRADEMARKS OF SMITHKLINE AND SUBSIDIARY COMPANIES APPEARING IN THIS REPORT

Ancef	Love
Bloat Guard	Love's Nail Color
Clinicult	Love's Natural Essence Creme Rinse
Contac	Love's Natural Essence Shampoos
Dyazide	Love's Sensuous Scents
Dyrenium	Ornacol
Eclipse	Ornex
Ekoline	Rhinomune
Enduracell D-M	Scourvax-Reo
Eskalab	Sine-Off
Golden Tan	SK-65
Hemaprep	SK-65 Compound
Hematrak	SK-Line
Hemoccult	Thorazine
Lipsavers	Vitite

Printed in U.S.A.

SmithKline
CORPORATION